

APPENDIX C:

CAPITAL INVESTMENT FINANCING

Development Impact Fees

These are fees that cities levy on new developments to pay for public facilities and infrastructure. These fees can be levied at several points during the permitting process of a new development. Development impact fees can be used for schools, open space, parks, housing, roadway improvements, inclusionary housing, as well as any type of infrastructure. The fees, which can be levied on a citywide or area-specific basis, are a commonly used tool and are the primary way that most cities pay for infrastructure. Development impact fees are designed for healthy real estate markets in which the existing tax base cannot support the infrastructure needed by rapid new development.

Exactions

These are amounts that are typically over and above the fees that a specific project is required to provide. Examples of exactions include donations of right-of-way for streets, utility rights-of-way, provisions of additional open space, parks, or landscape improvements to meet specific public policy goals. Exactions are commonly used for larger scale or unusual projects (i.e. projects that meet specific public policy goals). For instance, a project with a higher density than normal or a lower parking requirement

may involve an exaction of additional landscaping or more open space.

Revenue Bonds

These are bonds used to pay for public facilities and infrastructure. They are paid for by a specific revenue stream, typically by placing liens against affected or benefited properties. They are often subject to the vote of the properties affected and can be applied on a citywide basis or within a specific area. Revenue bonds are a very common capital funding source for cities and towns.

Assessment Districts

These are used to assess private property owners to pay for the capital costs of public improvements. Assessments, representing liens against properties, are generally subject to an allocation formula based upon benefit. Assessment districts are typically voted on by the properties to be assessed and can take several forms (i.e. lighting, landscaping, street or alley paving, or open space).

Federal and State Grants

There are several sources of federal and state grants available to fund public capital improvements. For example, Transportation Equity Act for the 21st Century or funding from the Department of Transportation can be used to pay for most types of street improvements. The U.S. Department of Housing and Urban Development also offers a Community Development Block Grant to fund public facilities and housing rehabilitation.

Capital Improvement Programs

Cities can fund any eligible type of public infrastructure, public improvement, or public building out of their general fund capital budget. Typically, cities identify a portion of their total resources to fund capital improvements, and create a multi-year capital program with a 1- or 2-year capital budget. Cities have substantial discretion in terms of how they can use their capital budget funds.

Property Tax Increment Financing

Tax increment revenues are a common method of financing public improvements in redevelopment project areas. The revenues are based on growth in the total assessed value of private property within a project area over the base assessed value at the time the redevelopment project area was created. In redevelopment project areas, property tax increment funds can be used to improve infrastructure or to develop public facilities.

Utility Undergrounding or Improvement Programs

These programs require regulated public utility companies to improve existing utilities or place utilities underground in certain defined areas, most often in conjunction with city improvement programs. Utility undergrounding programs are required in redevelopment areas in particular.

Certificates of Participation

These are bond-like, multi-year financing commitments that can be issued by cities for public improvements. With certificates of participation, the commitment of the issuing city must be re-

affirmed on an annual basis. During the past several years certificates of participation have become a widely used method of long-term financing for cities and states.

FINANCING OF OPERATING AND MAINTENANCE COSTS:

Assessment Districts

These can be used to finance operating costs for a wide range of public improvements including maintenance of landscaping, lighting, utilities, parks, open space, as well as operations of libraries and other public facilities and targeted city services above typical city service levels. Assessment districts for operations are usually voted on by the property owners who will be assessed.

City Operating Budget

The funding of many operating costs for public improvements come from city operating budgets. Cities have broad discretion in using funds from general fund operating budgets to pay for operating and maintenance costs.